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Approved For Release 2004/10/12 : CIA-RDP85T00875R002000020013-0

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5-6693

CIA/OER/S-06693-74

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INTELLIGENCE AGENCY
Washington, D.C. 20505

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20 December 1974

Western Credits to the USSR

In recent negotiations with the French, the Soviets were able to circumvent a Western agreement to place a 7.5% floor on government-supported export credits to the USSR.

Moscow has traditionally made low-interest credits a prerequisite to large-scale imports of equipment and machinery from the West and has often played one Western nation against another in negotiating credit lines on sales of capital goods to the USSR. Western commercial interest rates have risen substantially over the past two years, increasing the subsidy cost borne by those Western governments providing the USSR with low-interest loans.

Attempts by the West to devise a "gentlemen's agreement" on export credits have bogged down over the questions of the length of the credits and the kinds of transactions to be exempted from the agreement. In October, however, the major Western powers - the United States, Japan, United Kingdom, Italy, and France - concluded an "agreed minute" on export credits, which included a statement on the desirability of placing a 7.5% floor on interest rates for government-supported export credits.

France

Earlier this month France and the USSR concluded a credit accord whereby the French agreed to provide up to \$2.5 billion in long-term credits in 1975-79. The acknowledged interest rate on credits will vary between 7.25% for orders in excess of \$90 million and 7.55% for smaller purchases.

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Japan

Moscow also has succeeded in securing low-interest credits from Japan, although these agreements were concluded prior to the October accord. Soviet-Japanese agreements on the development of Siberian forestry and coal reserves involve over \$1 billion in long-term credits. Interest rates on the credits vary with the type of purchase, with interest on imports of machinery and equipment set at 6.375%. The Japanese, however, have stiffened their demands in more recent credit negotiations with the Soviets over the exploration of the Sakhalin Island offshore oil reserves.

West Germany

In West Germany, despite Soviet pressure, the government has continually refused to subsidize export credits to the USSR. West German exports are financed through commercial facilities provided either by German banks or the Eurodollar market. To satisfy Soviet demands for "nominally" low interest rates, West German firms often make arrangements with their banks to provide low-interest credits. Such arrangements, however, call for the German firms to make up the difference between the commercial rate and the "nominal" rate. The German firms in turn offset this cost by raising the selling price to the USSR. Moscow is fully aware of this procedure.

Italy and the United Kingdom

The USSR has not secured new credit lines from Italy in 1974, but several agreements have been concluded between the USSR and Italian firms that seemingly depend on the extension of additional credit. Soviet-Italian problems, however, center on credit availability rather than interest rates. In contrast, the raising of interest rates by the United Kingdom for government-backed credits, from 6% to 7% in October 1974, brought an unfavorable reaction from the USSR. The Soviets stated that they would no longer negotiate for government-backed credits at this rate.

United States

Since US Eximbank financing has been suspended, the USSR has been using methods similar to those employed in West Germany to secure low-interest credits to finance some US purchases. In August 1974 the Soviets concluded a \$250 million

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deal with GE for the delivery of compressor pumping stations. Roughly \$45 million worth of the equipment will originate in the United States, financed by seven-year, 6.5% Soviet notes to be sold at a discount in US financial markets. In this case the Soviets allowed GE to raise the purchase price of the equipment by the amount required to cover GE's cost in discounting the notes. The response of the US money market to this policy was lukewarm, making it doubtful that the Soviets could finance large amounts of US purchases in this manner.

Outlook

The USSR will continue to seek and use low-interest Western credits in spite of its current trade surpluses and earnings from gold sales. As long as Moscow is able to receive interest rates at below the rate of expected inflation, their credit financing becomes costless. In any event, the USSR will have little trouble servicing a higher level of indebtedness.

Soviet medium-term and long-term debt to the West now stands at about \$4.2 billion. It is expected to increase substantially in the future, as evidenced by the rapid rise in the level of Soviet orders for Western machinery and equipment, most of which the USSR buys on credit.

Soviet Equipment Orders from the Developed West

	Million US \$			
	1971	1972	1973	1974
Total	840	1,695	2,600	3,200
United States	240	320	450	700
France	80	480	425	660
Italy	65	165	625	300
West Germany	145	370	490	870
Japan	140	135	205	250
United Kingdom	120	75	155	220
Sweden	...	20	145	40
Other	50	130	105	160

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